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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

GIC issuers assess proposal

Guaranteed investment contract issuers think the Department of Labor's proposed 404(c) regulations for 401(k) investment options don't require plans with GICs to add a competing investment option.

The survey of 34 major GIC issuers by Morley Capital Management also revealed the insurance companies would assess an average risk charge of 12.9 basis points for no transfer restrictions if there were a competing option; 9.3 basis points with a three-month restriction; and 5.8 basis points with a six-month restriction.

Paul Quirk joins boutique

Paul F. Quirk, formerly executive director of the Massachusetts Pension Reserves Investment Management Board, has become managing director of The Boston Corporate Finance Group Inc., an investment banking boutique.

Managers selected

Celtrix Laboratories Inc., Palo Alto, Calif., hired Van Kampen Merritt Investment Advisory Corp., Lisle, Ill., to manage $12 million of corporate cash in high-quality, short-term, fixed-income instruments. . . . Frank Russell Trust Co. has hired Philippe Investment Management Inc., Lombard Odier International Portfolio Management Ltd. and Schroder Capital Management International to manage its new Europe Fund.

NCNB-Texas exec retires

H. Ed Anderson, managing director-trust investments at NCNB-Texas, Dallas, has retired. Donald Berdine, who worked in the NCNB trust department in Charlotte, N.C., has succeeded Mr. Anderson.

INSIDE

Photo by Margaret Price

Vive la France!

France, with its rich cultural history, might add a funded pension component that would shore up its time-honored, but financially troubled, national retirement system and boost the country's economy. Page 3.

Court ruling to slash PBGC claims

11.5% rate used to value liabilities

By Joel Chernoff

WASHINGTON — A bankruptcy court ruling involving The LTV Corp. might endanger the Pension Benefit Guaranty Corp.'s ability to recover assets from bankrupt companies that terminate their underfunded pension plans.

The decision, however, is not expected to greatly affect ongoing negotiations to settle the PBGC's claims against LTV. The two parties have reached an agreement in principle that is being discussed by creditor groups.

On April 4, U.S. Bankruptcy Court Judge Burton Lifland ruled an 11.5% interest rate should be used in valuing the pension liabilities of the terminated Republic Steel salaried employees pension plan. That rate far exceeds the range of 7.25% to 8.5% the PBGC argued should be used, and effectively would cut LTV's liabilities by nearly 50%.

The interest rate assumption is used to discount LTV's liabilities. The higher the interest rate used, the lower the amount needed to fund the benefits. As liabilities shrink, the PBGC's potential recovery diminishes commensurately.

"If upheld, this ruling would have a devastating impact on PBGC, decreasing claims and, therefore, recoveries in bankruptcy proceedings by as much as 50%," James B. Lockhart III, executive director of the PBGC, said in a statement. He termed the ruling "fundamentally flawed and misguided."

The Republic Steel plan, with about $250 million in unfunded pension liabilities under PBGC estimates, was taken over by the PBGC on Sept. 30, 1986, two months after LTV sought protection from creditors under Chapter 11 of the Federal Bankruptcy Code. Unlike three other underfunded LTV plans terminated by the agency, the Republic salaried plan was not restored to the company.

But rulings by Judge Lifland continue to be a source of major concern for the PBGC. Last May, the judge refused to give the agency priority status over claims of unsecured creditors in LTV's efforts to reorganize under Chapter 11.

What's more, the judge also said bankruptcy court would control how the interest rate for valuing liabilities would be set, rejecting the PBGC's arguments that the Employee Retirement Income Security Act granted the agency authority to set the appropriate rate.

The U.S. District Court for the Southern District of New York then asked Judge Lifland to develop recommendations on what the interest rate should be. Judge

See **LTV** *on page 34*

Currency strategies getting hot

By Margaret Price

Currency overlay management is starting to catch fire among pension executives.

Some fund officials considering the strategy believe the dollar might have bottomed, which would jeopardize foreign investment returns.

Pension funds now weighing currency overlay management — in which specialists manage the currency component of international portfolios — include the Illinois Municipal Retirement System and the Massachusetts Pension Reserves Investment Management Board. The funds of Scott Paper Co. and Eli Lilly & Co. reportedly are considering hiring overlay managers, but fund officials would not comment.

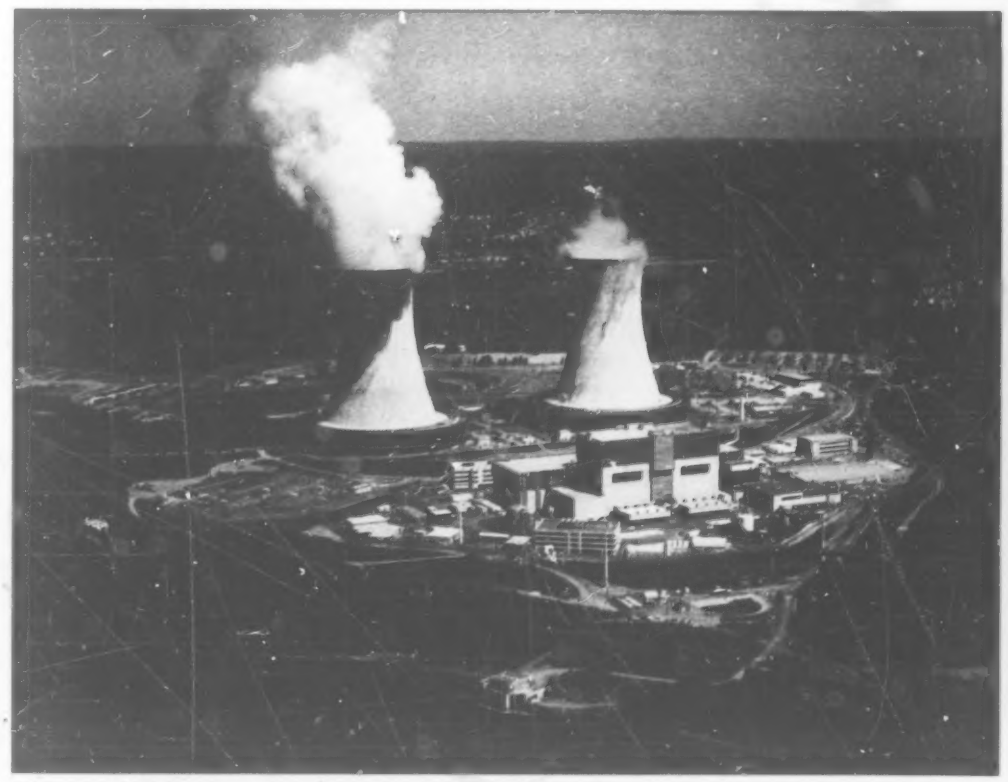
The falling dollar had muted interest in overlay management and hedging in general. But talk of an undervalued dollar — boosted by its late winter surge — has helped galvanize support.

Fund officials are paying more attention to foreign exchange movements now that their international investments have grown, in some cases to as much as 30% of total assets. With such sizable exposure to foreign currencies, executives worry the dollar's rise would harm their international returns, and thus possibly jeopardize the entire fund's performance.

Not surprisingly, some fund executives now wonder whether to postpone additional foreign investing because of dollar-related jitters.

For foreign investors, the dollar's rise comes at a difficult time. Last year, because of poorly per-

See **Currency** *on page 33*



Philadelphia Electric, which runs the Limerick Generating Station, is targeted in a new campaign.

Fund targets board nominees

By Marlene Givant Star

SACRAMENTO, Calif. — The California Public Employees' Retirement System sent letters to chief executives of 14 companies warning the fund will vote against director nominees if the executives don't justify their performance and/or shareholder rights records.

This is the first time a major institutional investor has threatened such action. And this is only the beginning. Another 21 companies will be targeted in coming weeks.

Philadelphia Electric Co. is the only company of those contacted so far that has not adequately addressed the fund's concerns, according to Jose Arau, principal investment officer. Officials at the utility did not return calls for comment.

Other companies contacted include: Hercules Inc.; Monarch Capital Corp.; Dow Jones & Co.; Multimedia Inc.; Brush Wellman Inc.; Cincinnati Milacron Inc.; American President Cos. Ltd.; First Fidelity Bancorp; Consolidated Freightways; and Wendy's International.

In addition to Philadelphia Electric, three other Pennsylvania companies also have been contacted: PPG Industries Inc.; AMP Inc. and Scott Paper Co. The Pennsylvania companies were targeted because the companies did not opt out of the state's antitakeover law when asked to do so by the fund last year.

The new campaign, launched in mid-March, reflects the fund's

See **Nominees** *on page 34*

NEWS DIGEST

Photo by Gary O'Brien

Far away from the steel and glass canyons of Wall Street, Thomas Hollowell, from left, Erskine Bowles, Stephen Cummings, Mark Mealy, Reid Leggett and Charles Conner are making a big name in middle-market deals. Story on page 19.

The same tools used by institutional investors to evaluate their stock and bond investments reveal now is a good time to invest in U.S. farmland. Page 30.

SPECIAL REPORT: 1991 PROXY SEASON

Negotiation, not confrontation, has become the hallmark of this year's proxy season, but the trend might be short-lived. Page 21

Some of the nation's largest corporations are bowing to to pressure by pension funds and shareholder groups and are adopting confidential voting procedures. Page 21.

FINANCING

Two health care companies turn to the private market despite a surge in IPOs and good vibrations for health-related stocks. Page 3.

INTERNATIONAL

Currency overlay management is starting to catch fire with American pension executives eager to preserve foreign investment returns. Page 1.

France's traditional pension system could be changing with the addition of a capitalized component to provide added benefits for retirees. Page 3.

REAL ESTATE

JMB Institutional Realty wants more cash from its Randsworth investors to help pay down a crushing floating-rate debt burden. Page 4.

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International manager survey out

Questionnaires for *Pensions & Investment*'s annual survey of the largest international managers are in the mail. The survey will be the basis for a special report to be published June 24 profiling the largest international and global managers. If you want to be included but have not received a questionnaire, contact Christine Philip, directory coordinator, at (312) 649-5217.

Sloan to purchase NCM

Management buy-out to be completed by end of June

By Terry Williams

DURHAM, N.C. — NCM Capital Management Inc. is being bought out by a management group led by Maceo K. Sloan, the chief investment officer.

Mr. Sloan declined to say how much management would pay for the firm, which was founded in 1986 and is owned by North Carolina Mutual Life Insurance Co. He said the sale should be completed by the end of the second quarter.

Telephone calls to Bert Collins, president of the parent company, were not returned.

The majority of the money to buy the firm will be raised through borrowing, with a small portion made up of equity from an outside investor, according to Mr. Sloan. He declined to name the equity investor.

Negotiations for the management-led buy-out have been ongoing for about three years, but it was North Carolina Mutual's intent to sell the asset management firm to its management since its inception, according to Mr. Sloan. The parent's return on investment would be between 20% to 40% annualized, he said.

"We are now strong enough to stand independently," Mr. Sloan said. "Most clients want to deal with a management-owned company."

NCM Capital manages about $711 million in discretionary tax-exempt assets for 39 clients. The firm also manages $20 million for the insurance company. ■

Maceo K. Sloan is leading the management buy-out of NCM Capital Management.

Kansas investing reviewed

Loans to S&L may spur change

By Fred Williams

TOPEKA, Kan. — A special legislative committee will review the investments of the Kansas Employees' Retirement System following the writeoff by one of the fund's money managers of a $65 million investment in a now-defunct savings and loan.

The result could be an an overhaul of the $4.1 billion system's investment policies and more legislative oversight.

The 12-member bipartisan joint legislative committee originally was to review the system's direct investment program and the two money managers responsible for direct investments, Reimer & Koger Associates and Peters — which made the S&L investment — and Gamm, West & Vincent Inc.

Legislative officials now say they want to go beyond the losses incurred in Home Savings Association of Kansas City, Mo., to examine the system's overall investment policy. They want to emphasize the direct investment program, which focuses on Kansas and regional firms.

Reimer & Koger, Shawnee Mission, Kan., has the largest portion of the direct investment program with approximately $300 million.

Peters, Gamm, West & Vincent, Wichita, manages about $60 million in direct placements.

The direct investments usually took the form of mezzanine loans to Kansas firms.

State Sen. Frank Gaines, a member of the legislative committee reviewing the system's investments, said he believes there is "culpability" on the part of current or former system officials in the case of Home Savings.

"In Kansas, we have the prudent-man rule. KPERS went off on its own in making direct investments in corporations. The savings and loan never would meet the prudent-man rule," said Mr. Gaines.

He said the special committee has taken custody of all records and files on the Home Savings investment.

The state retirement fund made two loans to Home Savings.

The first loan was a $15 million purchase of subordinated capital notes in May 1986. The second was a $50 million loan in 1986 and 1987. The second loan required the system's board's approval to exceed the maximum portfolio investment of $15 million.

The thrift was declared insolvent by the Resolution Trust Corp. March 15.

"This is the tip of the iceberg of what we are involved in," said Mr. Gaines. He said current and former system officials will be part of the investigation.

"Everything is on the table; if there was wrongdoing it will come out. My opinion is that there is some culpability by KPERS somewhere," he said.

The system's direct investment

See **Kansas** *on page 32*

CIBA-GEIGY changes 401(k)

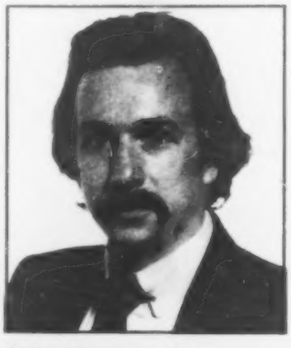
By Marlene Givant Star

ARDSLEY, N.Y. — CIBA-GEIGY Corp. is overhauling its $550 million 401(k) plan to provide participants with a mutual fund-type program without using mutual fund companies.

As a result, the company will pay one-tenth of the investment management fees mutual fund companies typically charge, and participants will get greater flexibility through daily valuation.

Company officials shopped around among mutual fund companies before hiring Bankers Trust Co., New York, as master trustee and investment manager and retaining Benefit Services Corp., Atlanta, as record keeper. William J. McHugh, director of trust funds at CIBA-GEIGY, wouldn't say whom Bankers Trust replaced, but Money Market Directory lists State Street Bank & Trust Co. as master trustee and investment manager.

"Mutual funds tend to be a lot more expensive than our program," said Mr. McHugh. Even record keeping will cost slightly less than what a mutual fund company would charge, he said.



William McHugh said employees have the benefits of mutual funds without the costs.

"Our package has more flexibility than a lot of mutual fund organizations," Mr. McHugh said. He noted, for example, many mutual funds limit employee transactions to four per year. CIBA-GEIGY always has allowed 12 transactions per year, but now they may be done any time during the month, not merely on the last day, as was required before.

CIBA-GEIGY joins an increasing number of companies switching to daily valuation systems, giving more control and flexibility to participants. Hercules Inc., Wilmington, Del., recently adopted an on-line system, also through Bankers Trust. At CIBA-GEIGY, valuations had been monthly.

"There certainly has been a movement that has been afoot in the industry," said Lou Ann Dolan, vice president and senior consultant of Callan Associates Inc., New York, noting it is more important than ever for com-

See **CIBA** *on page 34*

INTERNATIONAL

Brinson expands firm's resources in Japan market

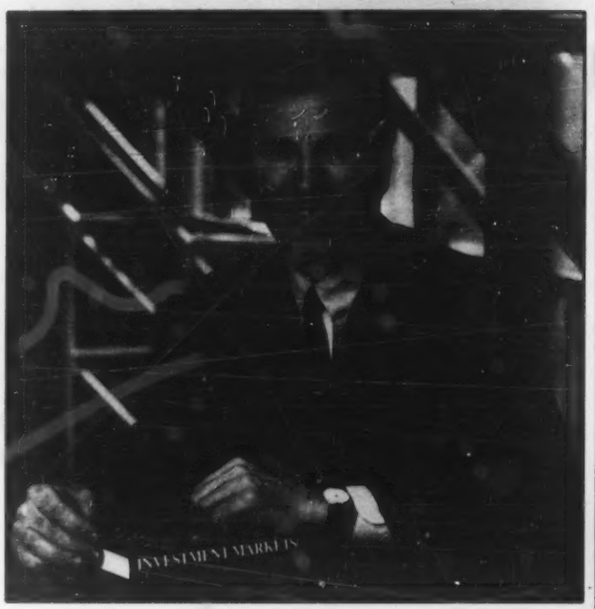
■ With an eye to attracting Japanese pension assets and enhancing its research on Japanese markets, Brinson Partners Inc. has planned a joint venture with one of Japan's largest insurers.

In the venture, Brinson's Japanese subsidiary — Brinson Partners Japan Ltd. — will merge with Yasuda Investment Management Co., the investment subsidiary of Yasuda Fire & Marine Co. Ltd., Tokyo. The merged firm, based in Tokyo, will be called Yasuda Kasai Brinson Investment Management Co. Ltd.

Chicago-based Brinson will own 40% of the firm and Yasuda, 60%, said Gary Brinson, president of Brinson Partners. The firm will manage assets for Japanese clients only, primarily in global equities and bonds.

U.S. firms have a hard time attracting Japanese assets without a Japanese partner, Mr. Brinson said. "We want to make sure we have at least a decent chance of getting some business there."

The joint venture also will benefit Brinson's non-Japanese clients who invest in Japan: "This will give us further access to research, economic data, etc.," Mr. Brinson said.



Gary Brinson, president of Brinson Partners Inc., hopes the venture with Yasuda gives his firm a chance at attracting Japanese clients.

As part of the arrangement, Yasuda will become a minority shareholder — 15% — in Brinson Partners. The share will come from a new issuance of stock, not from Brinson Partners employees, who own the majority, or other minority shareholders, he said.

The Brinson Japan subsidiary brings five staff members to the joint venture; Yasuda Investment, 18. Brinson Japan manages $550 million; Yasuda Investment, $2.4 billion.

ECONOMY

Opinions split on timing of recovery

■ A plurality of respondents to an American Stock Exchange survey predict the recession will be over by year end.

The survey, of chief executive officers of Amex-listed companies, found 48% predicting an end to the recession by year end, with 22% saying it will not be over by then and 30% uncertain.

Respondents also indicated they are facing a credit crunch; 71% said commercial loans are harder to obtain than a year ago.

"Mid-sized growth companies are currently facing restricted access to a critical source of capital," said James R. Jones, Amex chairman.

"Unless this problem is addressed soon, it will have serious long-range implications for the nation's economy," he said.

The group was divided on whether the cost of capital had risen over the past year; 43% said yes, 47% said no. A plurality, 46%, said equity capital has become more attractive relative to debt. "It is another indication that the re-equitization of America will be a hallmark of the 1990s," Mr. Jones said.

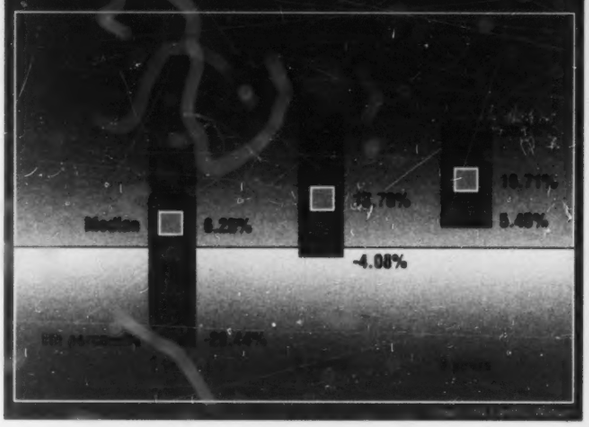
The respondents also showed significant support for reducing the capital gains tax, with 76% in favor, for ending the double taxation of benefits (67%).

The results were based on 224 responses of 827 CEOs surveyed.

Tremont universe of limited partnerships

(Periods ended Dec. 31)

Short-sellers had very strong results in the year. Hedged fund managers and managers using non-traditional approaches also fared well. Value investors, particularly those who focused on cable telephone and media-related issues had a disappointing year. All figures are net of management expenses and performance fees.



INVESTING

Index counters insurers' smiles

■ With junk bond losses and problem real estate chipping away at the credit quality of insurance companies, industry executives continue to claim that all is well.

Because of this seeming incongruity, Ned Schmidt, president of Schmidt Management Co., an insurance company market research firm in Tulsa, Okla., has developed the Insurance Industry Credibility Index.

The index — based on the volume of negative financial reports on 60 major life insurance carriers — has been on the downswing every month. As of March, the index had declined to 88 from 100 at its inception last September.

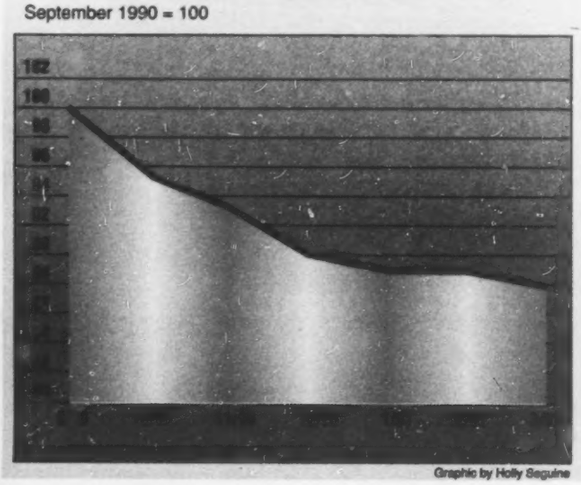
He expects the index to drop even more when the recent bleak news about Executive Life Insurance Co., Los Angeles, and its mammoth junk bond losses are factored in at the end of April.

"The insurance industry continues to state that no significant financial problems exist within the industry. They are trying to convince investors that it is a safe, sound and secure financial industry. On the other hand, they report negative financial results on a regular basis," Mr. Schmidt said.

The index is published in Mr. Schmidt's GIC Strategist report.

The decline of insurance company credibility

September 1990 = 100



Graphic by Holly Seguine

PEOPLE

Equitable execs get new duties

■ John D. Miller, an executive vice president of Equitable Capital Management Corp. and director of its $12 billion private placement portfolio, has been named to the newly created post of chief investment officer for the firm, which runs $33.2 billion.

Separately, Brian F. Wruble was appointed new chief investment officer at Equitable Life Assurance Society of the United States, Equitable Capital's parent company.

Under Mr. Miller, Equitable Capital's private placement department completed approximately 500 private placements totaling more than $9.6 billion during a four-year period.

James R. Wilson was promoted to executive vice president, replacing Mr. Miller as head of the corporate finance department. Mr. Wilson specialized in investment analysis and negotiating and structuring of private deals. He was instrumental in the restructurings of Allis-Chalmers Corp.; AM International Leasing and Memorex. He also led Equitable's entry into the leveraged buy-out market in 1983.

Mr. Wruble retains his position as chairman, president and chief executive officer of Equitable Capital. As chief investment officer for Equitable Life, he will oversee investment strategy for assets in the general and separate accounts.

Richard H. Jenrette, Equitable's chairman and chief executive officer, had been CIO.

Mr. Wruble joined The Equitable in 1979 as vice president and head of the portfolio management division. He was named chief executive of Equitable Capital upon its creation in 1985.

CONSULTANTS

Kwasha touting gain without pain

■ As defined contribution record-keeping services become more complex, a benefits consulting firm is offering what it says allows greater flexibility to meet the new needs while not overextending traditional approaches.

Kwasha Lipton, of Fort Lee, N.J., has been beating the bushes touting "transaction-based valuations," which its officials say will allow plan sponsors to keep the same record-keeping system even if investment managers are changed. The system also allows sponsors to value needed services daily but not overhaul the entire record-keeping system to do so.

The system gives employees access to funds on transaction dates other than the last day of the month; shortens the waiting period for participants who request disbursements; increases participants' ability to make transfers; and retains the efficiencies of batch processing.

"The employer is able to retain much of the cost effectiveness . . . while greatly enhancing plan flexibility," said Ted Barna, press relations manager.

FINANCING

ESOPs might be help to buy-outs

■ ESOP-led leveraged buy-outs have been less likely to run into financial difficulties than conventional LBOs, according to a study by the National Center for Employee Ownership.

The Oakland, Calif., center looked at 102 buy-outs between 1985 and 1988, the 28 largest using employee stock ownership plans for more than 50% of the stock and 74 conventional LBOs of more than $100 million. It found that of those using ESOPs, none is in bankruptcy or default, though two face other financial difficulties.

Of the 74 conventional LBOs, 10 have been in bankruptcy proceedings, four have defaulted on loan or bond payments and another seven are in financial difficulty, the study said.

"In conventional LBOs, companies take on tremendous debt while wages and job security are often sacrificed to pay for (it)," said Corey Rosen, center director. "ESOPs allow employees a fair return on the risk an LBO involves."